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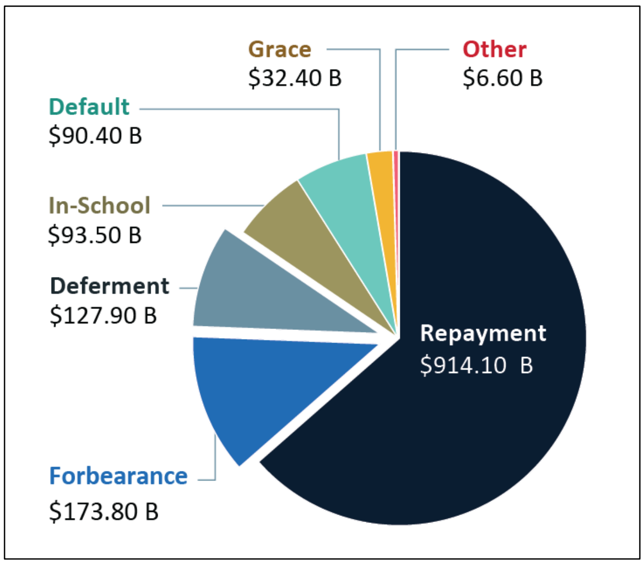
February 3, 2025

Direct Loan Program Student Loans: Deferment and Forbearance

Upon borrowing a loan under the William D. Ford Federal Direct Loan (Direct Loan) program, borrowers assume a contractual obligation to repay the debt over a period of time that may span a decade or more. Typically, once a loan has entered repayment borrowers must make monthly payments toward repaying it. Deferment and forbearance options offer borrowers temporary relief from their monthly loan payments in specified circumstances. As of June 30, 2024, borrowers owed approximately $1.4 trillion in Direct Loan program loans. Of that, about 21% ($302 billion) was in a deferment or forbearance status (**Figure 1**).

Figure 1. Outstanding Direct Loans by Status
As of June 30, 2024



Source: U.S. Department of Education, Office of Federal Student Aid, Data Center, "Direct Loan Portfolio by Loan Status," https://studentaid.gov/sites/default/files/fsawg/datacenter/library/PortfoliobyLoanStatus.xls.

Notes: "Grace" includes eligible loans that have entered a six-month grace period after the borrower is no longer enrolled in an eligible program on at least a half-time basis and during which borrowers are not required to make payments. "In-school" includes loans that have never entered repayment as a result of the borrower's being enrolled in an eligible program on at least a half-time basis. "Other" includes loans that are in a nondefault bankruptcy or disability status.

For a detailed description of loan deferment and forbearance, see CRS Report R45931, *Federal Student Loans Made Through the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers*.

Deferment

Deferment allows borrowers to temporarily suspend making monthly payments on their Direct Loans. During this time, interest does not accrue on Direct Subsidized Loans or on the portion of a Direct Consolidation Loan that was used to repay a Direct Subsidized Loan (i.e., the interest is *subsidized*). Generally, interest continues to accrue on all other types of loans during a deferment. While in deferment, borrowers have the option to pay the interest as it accrues or at a later time. The Higher Education Act (HEA) requires that the U.S. Department of Education (ED) capitalize unpaid accrued interest (i.e., add it to a loan's principal balance) at the end of deferment periods.

Eligibility criteria for borrowers to receive a deferment on their loan typically address instances in which borrowers may have a short-term hardship that impedes their ability to make monthly payments. Currently, about 10 different deferment options are available to borrowers. For example, borrowers may defer loan payments while they are enrolled at least half-time in qualifying postsecondary education, participating in a graduate fellowship program or rehabilitation training program, unemployed or experiencing an economic hardship, performing or having recently completed qualifying military service, or receiving treatment for cancer. The National Defense Authorization Act for Fiscal Year 2024 (P.L. 118-31) authorized deferment for dislocated military spouses, but ED has not yet implemented this deferment.

Typically, borrowers must proactively request a deferment. In most cases (e.g., cancer treatment deferment), the deferment period lasts as long as the borrower qualifies for the deferment. Other types of deferment are initially granted for a limited period of time and a borrower may subsequently renew them for a maximum period of eligibility. For example, ED may grant a borrower an economic hardship deferment for up to one year at a time and may extend the deferment up to a cumulative maximum of three years.

Forbearance

Forbearance allows borrowers to temporarily suspend making monthly payments or to temporarily make smaller payments on their Direct Loan program loans. Interest accrues on all Direct Loan types during forbearance. While in forbearance, borrowers have the option to pay interest as it accrues or at a later time. ED does not capitalize unpaid accrued interest at the end of forbearance periods.

Forbearance tends to be more broadly available than deferment. Currently, borrowers have over 30 forbearance options. In general, these options fall into three categories:

- *General (discretionary) forbearance*: Loan servicers may grant these forbearances at their discretion to a borrower experiencing temporary hardship due to financial difficulties, a change in employment, medical expenses, and other reasons. Loan servicers may grant a general forbearance for an initial period of up to 12 months and for a cumulative maximum of three years. Typically, borrowers must apply for a general forbearance. ED has also used general forbearances to address singular issues, such as a federal court's injunction preventing ED from implementing parts of the Saving on a Valuable Education (SAVE) plan.

- *Mandatory forbearance*: Loan servicers must grant these forbearances if a borrower meets eligibility criteria. Examples of when a borrower qualifies for a mandatory forbearance include when they are serving in qualifying AmeriCorps positions or when their federal student loan debt is high relative to their monthly income. Loan servicers may grant a mandatory forbearance for an initial period of up to 12 months; cumulative maximum eligibility periods depend on the type of mandatory forbearance granted. Borrowers must apply for a mandatory forbearance.

- *Administrative forbearance*: The Secretary of Education (via loan servicers) grants these forbearances to borrowers during periods necessary to determine a borrower's eligibility for a number of borrower benefits and certain other reasons. Examples of when a borrower qualifies for a mandatory forbearance include when their request for a change in repayment plan or loan consolidation is being processed and during periods necessary to determine a borrower's eligibility for student loan discharge (e.g., closed school discharge). ED has also used administrative forbearances to address singular issues. For example, ED placed certain borrowers into an administrative forbearance while loans servicers resolved issues relating to sending timely billing statements to borrowers and to effectuate the COVID-19 pandemic payment pause. The duration of an administrative forbearance varies depending on the reason for the forbearance. Borrowers are not required to apply for an administrative forbearance.

Selected Issues

Number and Variety of Deferment and Forbearance Options

In recent years, Congress has authorized multiple new types of deferment options for borrower (e.g., cancer treatment deferment, dislocated military spouse deferment), and Members of Congress have proposed additional options (e.g., H.R. 5588 [118th Congress], S. 409 [118th Congress]). These actions illustrate that Congress has found gaps in the types of temporary repayment relief available to borrowers. Congress might consider whether other gaps in such temporary relief also exist.

However, borrowers have about 10 deferment and over 30 forbearance options available to them. The large number of options may lead to borrower confusion in navigating their options and to complexity in administering the available options. During the 1992 reauthorization of the HEA, Congress decreased the number of available deferment options from about 16 to 5 following testimony from stakeholders that the number of deferments "increased the complexity of program administration" and proved "to be confusing to borrowers."

Purpose of Deferment and Forbearance

Deferment and forbearance offer borrowers short-term relief from monthly loan payments. Previously, Congress has enacted new types of loan deferment to assist borrowers experiencing temporary difficulties avoid default on their loans. However, these short-term relief options do not necessarily aid borrowers with long-term repayment success and may only be delaying default for some borrowers who have persistent difficulty repaying their loans. Also, due to capitalization following deferment, use of that option may lead to added borrower distress in the form of increased student loan debt following the short-term relief from monthly payments.

Congress might explore whether deferment and forbearance meet intended policy goals, including aiding borrowers in avoiding default. Congress might also consider whether other features of these short-term relief options, such as interest subsidies for some but not all borrowers and capitalization following periods of deferment, may result in borrower distress. In doing so, Congress might consider the extent to which providing additional borrower benefits, like ending loan capitalization following deferment periods, affects Direct Loan program costs.

Income-driven repayment plans (IDR)—under which borrowers' monthly payments vary according to their income and may be as low as $0 per month—are now widely available to most Direct Loan borrowers. These plans may provide borrowers with longer-term strategies for managing their student loan debt and may decrease the necessity of using short-term options like deferment and forbearance. On the other hand, issues may arise for which a temporary intervention, such as a deferment or forbearance, may be an appropriate course of action. For instance, despite having an affordable monthly payment amount under an IDR plan, a borrower may prefer to have their loans placed into an administrative forbearance while their application for a loan discharge is processed. This option would permit them to forgo making payments during a period for which they would not need to make payments, should they ultimately be determined eligible for discharge. This would also result in ED avoiding the need to reimburse borrowers for payments made on their loans that they were ultimately not required to make.

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